

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6305

BILL NUMBER: HB 1633

NOTE PREPARED: Feb 2, 2005

BILL AMENDED:

SUBJECT: Teacher Pensions and Retiree Health Insurance.

FIRST AUTHOR: Rep. Adams T

BILL STATUS: As Introduced

FIRST SPONSOR:

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill removes the two-year limitation on a surviving spouse's participation in a retired local unit employee's group health insurance program, and reinstates surviving spouses who are eligible for coverage. It permits a retired Teachers' Retirement Fund (TRF) member to assign benefits for paying dues for a retired membership to any association that proves to the TRF Board's satisfaction that the association has as members at least 50% of the active members of the fund.

Effective Date: July 1, 2005.

Explanation of State Expenditures: *Part I:* The cost of the health insurance provision of this bill is unknown. Several factors contribute to the cost of this provision: (1) type of insurance provided; (2) number of surviving spouses currently receiving health benefits; (3) number of surviving spouses that are no longer eligible for health benefits due to the two-year limit; (4) adverse experience factor of retirees, and (5) number of districts that offer retiree health insurance.

It is unknown if local groups would absorb any additional costs resulting from this bill or pass the costs onto employees in the form of higher deductibles, higher premiums, or by limiting other conditions covered. Cost sharing of health benefit premiums varies widely by locality. In addition, not all school districts and local units of government offer retiree health benefits.

(1) *Type of Insurance Provided:* School districts and local units that offer retiree health insurance may select from three options for employee/retiree health insurance. The local unit or the school district may either be self-insured, purchase group insurance, or buy into the Local Unit Group (LUG) option of the state employee plan. Due to collective bargaining agreements, the insurance benefit plan and associated cost of insurance varies by

local unit. The annual premiums for the LUG option of the state employee plan average \$7,344 for single coverage.

(2) *Number of Surviving Spouses Currently Receiving Health Benefits:* The current number of surviving spouses receiving health benefits is unknown. The cost associated with surviving spouses currently receiving health benefits is contingent upon the number receiving benefits and the adverse experience factor (see below). If an individual is allowed to remain in the benefit pool for a longer period of time, the total risk of the pool may increase. The increase in risk may result in higher premium costs for all individuals in the benefit pool. Eligibility for health benefits terminates when the individual becomes eligible for Medicare.

(3) *Number of Surviving Spouses That Are No Longer Eligible for Health Benefits Due to Two-Year Limit:* The number of surviving spouses that are no longer eligible for health benefits due to the two-year time limit is unknown. The cost associated with allowing these individuals to purchase insurance is contingent upon the number that re-enroll and the adverse experience factor.

(4) *Adverse Experience Factor:* The cost of this proposal is higher due to retirees having an adverse experience factor equal to \$2.42 in claims expenses for every \$1 in claims expenses experienced by the group as a whole. (This number is based upon data on early retirees enrolled in the state employee plan from the State Department of Personnel.) The Department of Personnel reports that the cost of health benefits for retirees is 2.42 times more expensive than the regular employee pool. Thus, the cost for a surviving spouse enrolled in the school health insurance program is actually 1.42 times more expensive than the average member.

(5) *Retiree Health Insurance Offered:* The number of local units and school districts that offer retiree health insurance is unknown.

Background Information: The number of retired employees that meet the criteria established by this bill is unknown.

Current statute allows for the school district and local units of government to require the surviving spouse to pay the employer and employee share of health insurance cost. However, this cost would not include the adverse experience factor. Thus, the true cost of providing this benefit may result in higher premiums for the entire employee pool. However, the extent that this adverse experience will actually impact premiums is not known at this time and is dependent upon claims submitted.

Part 2: There initially may be additional administrative costs associated with this change. The TRF reports that this provision will add approximately 3,000 members to the current total of about 30,000 members who avail themselves of this provision. The per unit cost for this is estimated to be \$1.10, or a total of \$3,300 for the newly added members. The fund affected is the non-budget Administrative Fund for the TRF.

Explanation of State Revenues:

Explanation of Local Expenditures: See *Explanation of State Expenditures*.

Explanation of Local Revenues:

State Agencies Affected: Teachers' Retirement Fund; State Department of Personnel.

Local Agencies Affected: School Corporations; Local units of government.

Information Sources: Keith Beesley, State Department of Personnel, 317-232-3062; William Christopher, Director of TRF, 317- 232-3869.

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